BRITISH CHAMBERS OF COMMERCE

2 September 2026

QUARTERLY ECONOMIC FORECAST Q3 2026

The latest British Chambers of Commerce (BCC) forecast suggests the outlook for the UK will remain fragile. While the economy was more resilient in Q2 than expected, higher energy and business costs are likely to keep growth weak this year and next.

- GDP in 2026 is expected to grow by 1.0%, 1.0% in 2027, and 1.3% in 2028
- Inflation is expected to peak at 3.6% by the end of 2026, as the Middle East conflict impacts prices.
- Unemployment is expected to be 5.0% in 2026; with youth unemployment forecast at 17.6% in 2027

GDP growth

UK GDP is expected to grow by 1% in 2026, marginally better than the BCC's previous forecast (0.9% in Q2), as the economy proved more resilient than expected in the first half of the year despite higher oil prices. Growth is then expected to hold at 1% in 2027 and reach 1.3% in 2028.

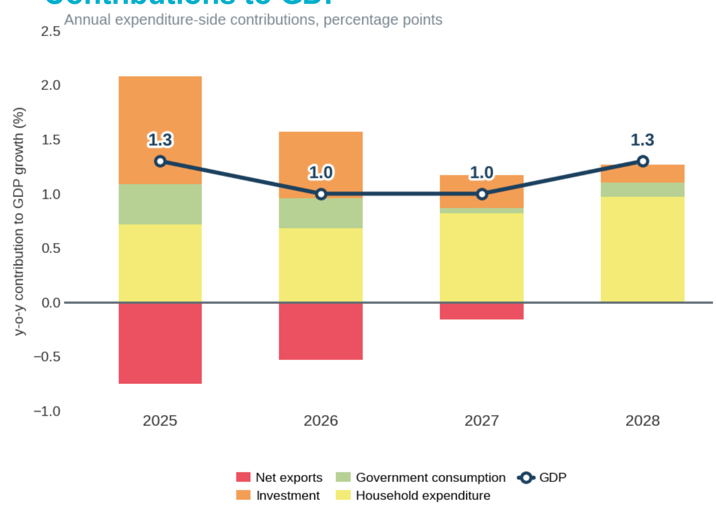
With firms facing high domestic cost pressures, business investment is forecast to contract by 0.2% in 2026, before recovering to growth of 0.4% in 2027 and 1.2% in 2028. The Middle East conflict will make international trade challenging and UK exports are forecast to grow by just 0.4% this year before improving to 1.3% growth in 2027.

1.0% forecast GDP growth for 2026

-0.2% forecast business investment growth for 2026

3.6% forecast CPI inflation rate by Q4 2026

Contributions to GDP



Inflation

Inflation is expected to peak at 3.6% in Q4, with the main drivers being higher household energy costs linked to the ongoing conflict in the Middle East. There is also a risk from higher food prices in the wake of this summer's drought in parts of the UK. The forecast suggests the current interest rate will of 3.75% will be sufficient to manage this inflation, but no cuts are expected until 2028. This trajectory depends on the current Middle East conflict and its uncertain impacts on energy and food inflation.

Employment

With vacancies continuing to fall, unemployment is forecast to rise to 5.0% in 2026 and then reach 5.4% in 2027. BCC surveys continue to show labour costs as the main cost pressure for businesses. Youth unemployment remains an area of concern as labour costs and AI erode entry level jobs. It is expected to be 16.6% in 2026, rising to 17.6% in 2027. With firms facing squeezed margins because of input costs and minimum wage increases, growth in average earnings is forecast to hold steady at 3.75% in 2026 and 2027.

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Current forecast (2026 Q3)				
BCC Economic Full Forecast (Annual % change)				
	2025	**2026**	**2027**	**2028**
GDP	1.3	1.0	1.0	1.3
Household Consumption	1.1	1.1	1.3	1.6
General Government	1.7	1.3	0.2	0.5
Investment	4.0	1.7	1.5	0.9
of which: Business Investment	4.3	-0.2	0.4	1.2
Exports	1.9	0.4	1.3	2.4
Imports	4.1	1.9	1.7	2.2
Total Production	-0.1	-0.1	-0.6	0.0
Manufacturing	-0.8	1.0	0.6	1.0
Construction	0.2	-1.3	0.5	0.7
Services	1.6	1.5	1.3	1.5
Unemployment Rate %	4.8	5.0	5.4	5.2
Unemployment change 000's	232.3	84.4	128.2	-47.0
Youth unemployment rate %	15.0	16.6	17.6	17.2
Youth unemployment change 000's	72.9	79.3	59.9	-19.6
CPI inflation Q4	3.6	3.6	2.3	2.0
Average earnings Q4	4.4	3.1	3.1	3.1
Bank Rate Q4	3.75	3.75	3.75	3.50
Net Trade % GDP	-2.4	-2.9	-3.0	-3.0
Balance of Payments % GDP	-3.1	-3.8	-4.6	-4.4
PSNB ex % GDP	4.9	3.8	3.6	2.9
PSNB ex £bn	154.5	122.0	117.5	100.2

The BCC forecast is produced using the National Institute Global Econometric Model (NiGEM). For more information, contact Caterina Batog c.batog@britishchambers.org.uk

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